

“GROWTH WITH EQUITY” IN CHILE’S NEW DEMOCRACY?*

Kurt Weyland
Vanderbilt University

The new democracy in Chile provides an interesting test case for two influential lines of thinking on Latin American political economy. Both these perspectives have claimed that the recently installed civilian regimes would find it exceedingly difficult to effect equity-enhancing change. One hypothesis has stressed the impediments posed by a capitalist free-market system to measures favoring the poor. The other has emphasized the obstacles presented by a transition to democracy that avoids a rupture with the preceding conservative dictatorship. Because the democratic government led by Patricio Aylwin (1990–1994) faced both types of constraints, it should have been particularly unlikely to achieve greater social fairness.

The dictatorial regime of General Augusto Pinochet (1973–1990) imposed a free-market system and opened Chile to the world economy (J. S. Valenzuela and A. Valenzuela 1986; Remmer 1991, chap. 6). Concerned above all with efficiency and competitiveness, the government had to maintain economic equilibria such as price stability. According to the argument stressing free-market constraints, these economic imperatives set tight limits on social reform under democracy. Equity-enhancing measures like improved social protection and higher direct taxes weaken market incentives, reduce profits and investment, and thus depress growth. Or business transfers the cost of reforms to consumers via higher prices, causing inflation. According to this perspective, to avoid these problems, equity-enhancing measures must be kept to a minimum.¹ Thus the neoliberal model with its strict economic trade-offs should guarantee continuity in policy outputs between authoritarian and democratic rule.

The second obstacle often cited—the limitations stemming from

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1. This reasoning is reflected in Fontaine Talavera (1989); Rosende (1993); and Petras, Leiva, and Veltmeyer (1994, 170–77). Both Marxist-inspired and neoliberal critics of European welfare states have advanced similar arguments (see Offe 1984, 149–61).

Chile's negotiated regime transition—has been expected to reinforce this continuity. As a precondition for restoring democracy, the dictatorship insisted on institutional safeguards guaranteeing its supporters strong influence in the new democracy (Drake and Jakšić 1991). For instance, the establishment of nine appointed senate seats awarded conservatives a majority in the upper chamber. These and other limitations were enshrined in the constitution adopted under military rule. Also, the powerful Chilean private sector accepted the return of democracy only after the forces opposing Pinochet committed themselves to respecting its interests. According to a prominent hypothesis in the literature on regime transitions, such constraints prevent a new democracy from enacting reforms that could offend business (O'Donnell 1988; Karl 1990).² Consequently, no major efforts that would benefit the poor and burden the private sector disproportionately should be expected (Galleguillos and Nef 1992; Petras, Leiva, and Veltmeyer 1994, chaps. 2, 5–6, 9; Silva 1992–1993, 99–103).

This article will assess the validity of these constraint arguments by analyzing tax, social, and labor policy under the Aylwin government. These three areas are crucial to equity-enhancing efforts, defined here as policy programs that strongly favor disadvantaged strata in order to combat destitution (Fagen 1978, 173–80). Although poverty reduction (improvements in the absolute standard of living of the disadvantaged) is logically distinct from redistribution (an increase in the relative share of the poor in national wealth), a determined attack on poverty through public policy will require resource transfers from the better-off to the destitute. Reallocative policies such as progressive taxation and targeted social spending clearly favor the poor over the rich and are likely to arouse conflicts. The impact of such policies on overall income distribution, however, may be limited by autonomous market forces that benefit the better-off.

The following sections will first review the Aylwin government's equity-enhancing goals and analyze some of its achievements. Attention will be focused on increased resource extraction from the better-off through a progressive tax reform; the expansion of social benefits for poorer strata via improvements in the health system; and the strengthening of workers' power through labor reform. Following evidence that qualifies the constraint arguments,³ the article will elucidate the causes of the improvement in equity under the new democracy.

While Chile's prosperity has facilitated reform efforts, I argue that political factors, especially learning and encompassing organization, have

2. O'Donnell has since rejected this hypothesis (1993, 1356).

3. Ritter (1992) reached similar conclusions based on a narrower time frame, while Vergara (1993) remains more skeptical.

also played a decisive role. Political learning has impressed on Chileans the importance of gradually attending to unfulfilled social needs in order to guarantee democratic consolidation. Yet in theory, collective-action problems could prevent sociopolitical forces from contributing to this collective goal. Because no member of a community can be excluded from enjoying a collective good provided to that community (such as democratic stability), self-interested actors tend to "free ride" and not help attain collective goods, especially if their share of the benefit is low and if the contribution of other actors is not guaranteed (Olson 1971).

In the new Chilean democracy, however, encompassing organization has mitigated this collective-action dilemma. Because organizations with a broad membership base capture a large share of collective goods, they have an interest in helping attain these goods. They are willing to forego immediate special benefits because the collective cost of group egotism would come to hurt them too (Olson 1982, 47–53). Also, because their number is small, encompassing organizations can reach binding agreements among each other and guard against free-riding. For these reasons, the encompassing and cohesive organization of major sociopolitical forces in Chile has been essential in creating the incentives and capacities for fulfilling collective needs perceived through political learning, such as the enactment of gradual equity-enhancing reform. As will be explained in detail, this argument applies to the encompassing peak associations of Chilean business and labor; the broad, solid alliance of well-organized parties sustaining the government; and Chile's fairly unified and well-coordinated state.

This organizational argument will be confirmed here by a comparison with Brazil, which also underwent a negotiated transition constrained by the outgoing military regime (Hagopian 1990). Contrary to the encompassing organization prevailing in Chile, organizational fragmentation has plagued interest groups, political parties, and the state in Brazil. Multitudinous narrow interest associations have pursued special favors for their members, reinforcing privileges and blocking reforms favoring the poor. The welter of fluid Brazilian political parties has encouraged politicians to focus on personal political survival to the neglect of collective goals, such as social change for the sake of democratic consolidation. Finally, rampant bureaucratic politics inside Brazil's fragmented state has kept the government from pursuing a coherent reform strategy and imposing reallocative measures on reluctant elites. These organizational obstacles have blocked frequent efforts to improve social equity through changes in the unjust Brazilian tax and health systems (see Weyland 1996, chaps. 5–7).⁴

4. Social coalition arguments cannot account for the different outcomes in Chile and Brazil. In both countries, the transition from conservative military rule to democracy opened

THE PROMINENCE OF THE EQUITY ISSUE

Promoting social fairness was always a top priority of the Aylwin government, as reflected in its slogan "*Crecimiento con equidad*" ("Growth with equity"). The Pinochet regime had deepened social inequality through its radical neoliberal policies. Economic growth per capita had been erratic and on average mediocre: 1.9 percent per year from 1974 through 1989 (Ritter 1992, 72). This increasing inequality consequently led to considerable poverty. In 1987, 44.4 percent of all Chileans were living in poverty, and 16.8 percent were indigent (CEPAL 1991, 110).

The parties forming the Concertación de Partidos por la Democracia—led by the Partido Demócrata Cristiano (PDC) in the Center, the Partido por la Democracia (PPD) on the Center-Left, and the Partido Socialista (PS) on the renovated, post-Marxist Left—criticized these problems relentlessly in their campaign. Their accusations helped them defeat the Pinochet regime in the referendum of 1988 and in the elections of 1989. After taking office, the Aylwin government perceived equity-enhancing policies as necessary to guarantee stability and strengthen its base of support. The administration attempted to anticipate popular demands that had been repressed under the military regime but could now be advanced openly, trying thus to preempt conflict by satisfying the most urgent needs. What threats were equity-enhancing measures meant to avert?

The experiences of other new democracies in Latin America suggested that the main risk for democratic consolidation could arise from populist reactions. Leading figures in the Aylwin government, especially Secretario General de la Presidencia Edgardo Boeninger and Ministro de Hacienda Alejandro Foxley, were preoccupied with avoiding "the traditional cycle of populist policies in Latin America" (Foxley 1990, 118; Foxley 1993, 7, 17, 19, 26, 58, 108, 172–75, 181).⁵ Both feared that inequality and poverty would prompt a wave of demands for immediate benefits that would endanger sound economic policy.⁶ High short-term gains for the poor could not be solidly financed and consequently would create enormous economic problems, such as skyrocketing inflation. The resulting crisis could undermine democratic stability.

Gradual attention to social needs, backed by responsible economic

up channels of political access for middle- and lower-class groups. Although conservative sectors were not part of the governing coalition in Chile (as they were in Brazil), the institutional restrictions imposed by the Pinochet regime gave them veto power. Yet despite this broadly similar constellation of sociopolitical forces, efforts to promote more just distribution have met different fates.

5. Interview with Edgardo Boeninger, Ministro Secretario General de la Presidencia, Santiago, 16 July 1993.

6. Chile's strong parties have provided considerable immunity against populism (see in general Kaufman and Stallings 1991, 22–25). But the sudden rise of "Fra-Fra" Errázuriz in 1989 suggests that this "virus" could take hold in the country.

policies, seemed crucial to avert a surge of populism. According to Aylwin's advisors, increases in social spending were necessary but should be limited to what could be financed by tax raises without undermining investment and growth. To ensure economically sound decisions, the Aylwin government decided to anticipate demands rather than merely respond to popular pressures. Indeed, the government itself—not the political parties, interest groups, or social movements—initiated most of the reforms (Oxhorn 1994, 752, 756).

This use of equity-enhancing change as a safeguard against populism has dual significance. On the one hand, Chile's new democracy has modified the policy orientations of the military regime. The Aylwin government channeled more benefits to the poor through an array of social measures, such as increased welfare pensions and higher spending on health. To finance these improvements, it raised taxes and imposed a higher burden on better-off strata. The government also revamped the legal parameters of business-labor relations to empower workers and unions.

On the other hand, while enacting significant reforms, the Aylwin government did not break with the neoliberal economic model nor did it overturn the existing imbalance of power in society. Recognizing the failures of the "revolutions" proclaimed by Presidents Eduardo Frei (1964–1970) and Salvador Allende (1970–1973), the Aylwin government promoted gradual change instead. This decision to retain the market system and openness to the world economy limited the latitude of the *Concertación*,⁷ although less than had been predicted.

EQUITY-ENHANCING REFORMS IN THE NEW DEMOCRACY

Counting on solid support from a broad party coalition and bolstered by the unity of the Chilean state, the Aylwin government enacted a wide range of equity-enhancing reforms. To redress the urgent needs that the Pinochet regime had left unfulfilled, the new administration expanded social programs greatly. For instance, it vastly increased health spending, a matter of immediate concern to most of the poor. To finance higher social expenditures in sound ways, the Aylwin government enacted a progressive tax reform. Also, it overhauled labor laws to strengthen trade unions and allow them to pursue their equity-enhancing demands more effectively. These measures extended significant benefits to the disadvantaged and modified the balance of sociopolitical power in Chile.

7. The constraints imposed by the outgoing dictatorship actually bolstered the Aylwin government's strategy of prudent reform by blocking populism. Facing urgent demands, the government could cite the veto power of conservative elites to justify its cautious reformism (Foxley 1993, 173–74, 191; Scully n.d., 21).

Tax Reform

To avoid a populist cycle, the Aylwin government considered a tax raise indispensable for covering increases in social spending.⁸ It proposed to augment progressive direct taxes and eliminate tax privileges for sectors like agriculture and mining. To obtain sufficient revenues for social programs, the government also needed to raise the value-added tax. This reform project was aimed at reversing some of the tax cuts enacted by the Pinochet regime in the 1980s as part of its neoliberal strategy to shrink the state (Arellano and Marfán 1987, 152–57; Fontaine Talavera 1989).

Several business associations, concerned about costs, criticized these proposals. Invoking strict economic trade-offs, they warned that tax raises would depress investment and growth. In political terms, however, the private sector was not in a position to resist strongly. Because it had openly supported the outgoing dictatorship, business now had to legitimate its role in the new democracy. “We lost the elections of 1989, so we had to pay a price,” argued the leader of the peak business association, the Confederación de la Producción y del Comercio (CPC).⁹ Focusing on broad long-term goals, this encompassing organization convinced reluctant business groups to accept some sacrifice and avoid hostility.¹⁰ CPC leaders feared that otherwise, the ascendant democratic forces would not respect private-sector interests.¹¹ Thus the return to democracy weakened the veto power of business and made progressive tax reform possible.

This equity-enhancing initiative faced another hurdle in the Chilean Senate, where the Concertación has lacked a majority. An agreement with the main opposition party, the conservative Renovación Nacional (RN), was essential to passing the tax reform. This accord reflected the desire of both sides to avoid a confrontation for the sake of democratic consolidation. Again, the return of democracy facilitated the social reallocation of resources. Being close to business, the RN accepted the government’s argument that the tax reform was required for urgent increases in social spending. But the RN claimed that economic growth could soon cover these revenue needs and insisted that crucial reform provisions expire at the end of 1993.

These changes boosted tax revenues by approximately 15 percent

8. See Foxley’s statements in the congressional debates (Congreso Nacional 1990, 215, 256).

9. Interview with Manuel Feliú, former president of the Confederación de la Producción y del Comercio, Santiago, 19 July 1993.

10. *Ibid.*

11. Business people’s fears concerning the new democracy were discussed in my interview with Pedro Lizana, Vice-President of the Sociedad de Fomento Fabril, Santiago, 4 Aug. 1993; also in my interview with Isabel Mendoza Vásquez, Gerente de Estudios, Cámara Nacional de Comercio, Santiago, 20 July 1993. See also Bartell (1992, 10–14).

and allowed increasing fiscal spending on social programs from 9.9 percent to 11.7 percent of the gross domestic product (Ministerio de Hacienda 1993a, 56, 71; 1993b, 1). Despite the raise in the value-added tax, the reform had a progressive impact in that the weight of direct taxes in public revenues rose from 18.3 percent to 24.1 percent.¹² The upper middle class paid higher personal income taxes, while big business shouldered substantial increases in the corporate income tax.

The dire warnings that tax increases would undermine investment and growth were not borne out. On the contrary, investment soared higher than ever, reaching 25.6 percent of the GDP in 1993 (Aninat Ureta 1994, 67). Growth averaged an impressive 6 percent per year under the Aylwin government. These achievements thus contradict the neoliberal postulate that a strict trade-off exists between taxes on the one hand and investment and growth on the other (Fontaine Talavera 1989, 91). In addition to economic calculations, political factors also influence investment. In comparison with a dictatorial regime facing uncertain long-term prospects and hostile opposition, a democracy that guarantees sound market-conforming policies seems to provide a more propitious economic setting.¹³ Thus democracy itself has made it possible to combine equity-enhancing reform with higher investment in Chile.

The social programs financed with the new revenues have led to lasting spending increases (Ministerio de Hacienda 1993b). The Aylwin government therefore sought to perpetuate the tax reform and began to negotiate with business in late 1992. On this point, the CPC peak association once again focused on broad concerns, respected the need for fiscal equilibrium, and did not insist on the expiration of the tax reform as previously scheduled (CPC 1993). It tried to demand a large reduction in the corporate income tax, but the government rejected this proposal as financially infeasible. The impasse was resolved when the RN proposed more moderate tax cuts. This party reached an agreement with the government to reduce gradually the personal income tax and the value-added tax and to create some new tax breaks while maintaining the increased corporate income tax.¹⁴ The most powerful sectoral organization, the Sociedad de Fomento Fabril or SOFOFA, sharply attacked this accord, but the CPC demanded only minor changes.¹⁵ As an encompass-

12. Computed from Ministerio de Hacienda (1993a, 69). In Chile's open economy, the corporate income tax is progressive because most businesses cannot transfer their tax burden to consumers via higher prices.

13. Thus the Concertación's commitment to the market minimizes the threat that democracy can, in principle, pose to investment and growth (see Przeworski and Limongi 1993, 52–54).

14. "Acuerdo Tributario," 1993, photocopy.

15. Compare my 1993 interview with Lizana and the article "Acuerdo Tributario no favorece en nada al sector industrial," *El Mercurio*, 5 July 1993, p. B-1, with my interview with Cristián Pizarro Allard, Asesor de la Presidencia, Confederación de la Producción y del

ing association, it focused on the global interests of the private sector and was therefore more willing to compromise.

Under the moderate tax cut stipulated in the agreement between the government and the RN, the weight of direct taxes in tax revenues will fall gradually to 22.3 percent, a level still significantly higher than that of the Pinochet regime.¹⁶ The new reform diminishes tax revenues by only 6.4 percent and thus does not roll back the drastic increase of their share in the GDP from 15.9 percent in 1990 to 19.1 percent in 1992 (Ministerio de Hacienda 1993a, 48). Because economic growth raises tax revenues as a share of the GDP, the government of President Eduardo Frei Ruiz-Tagle (1994–) has been able to increase social spending further. In sum, the Aylwin government succeeded in improving social equity through its tax policy.

Health Policy

The revenues from the tax reform allowed the government, which commanded a unified state, to execute a coherent reform strategy and attend to urgent needs unaddressed by the dictatorship (Ministerio de Hacienda 1993b). The public health system in particular had been severely neglected. The Pinochet regime had allowed citizens to channel their obligatory health-insurance contributions into private companies through the ISAPRE program (Instituciones de Salud Previsional). Yet only the top quarter of the social pyramid could afford private insurance. Before the privatizing reform, this upper echelon had subsidized health care for the poor. Transfer of its contributions to ISAPREs drastically cut the funds available for medical services to the poorer three-quarters of the Chilean population. The austerity policies of the Pinochet regime also depressed budget allocations for public health. As a result, public hospitals were suffering from lack of investment and the exodus of qualified personnel, and the quality of medical attention had deteriorated greatly.

The Aylwin government undertook improvements on many fronts, although it left the basic structure of the health system intact. The government raised health expenditures by a striking 70 percent in real terms between 1990 and 1994 (Ministerio de Hacienda 1994, 4). Using revenues from the tax reform and from foreign aid, it made large investments to

Comercio, Santiago, 16 July 1993, and "La opinión de los empresarios," *El Mercurio*, 27 June 1993, p. B-30. The disagreements among business people on tax reform and other equity-enhancing changes pitted leaders of interest associations against each other, rather than leaders against members. Thus the divergence did not result from an informational asymmetry between leaders and members (the possibility that leaders had a more realistic assessment of the opportunities and constraints facing the organization).

16. Computed from Ministerio de Hacienda (1993a, 69) and its "Informe financiero sobre proyecto de ley que modifica la ley sobre impuesto a la renta, el impuesto al valor agregado y otras disposiciones de orden tributario," in-house document, p. 6.

rehabilitate old public hospitals and construct new ones. To improve the quality of attention, the government raised the salaries of medical personnel. Given the depth of the prior deterioration and the long gestation period of investments, this injection of resources led to only a modest increase in medical services during the Aylwin government. But the new administration led by Eduardo Frei Ruiz-Tagle has made concerted efforts to improve efficiency in the public health system and to expand the availability of services (Ministerio de Salud 1994).¹⁷

In measures targeting the disadvantaged, the Aylwin government further expanded primary health care in rural and poor urban areas.¹⁸ New health centers and extended hours of service have made basic care more accessible to the poor. Allocation of resources to municipalities has also become more equitable because a per capita criterion and indicators of unsatisfied needs now complement the established rules, which perpetuated inequality by simply guaranteeing reimbursements for services provided. Spending on primary care almost doubled between 1990 and 1994 (Ministerio de Hacienda 1994, 9). All these efforts have improved the life chances of poor people living under Chile's new democracy.

Labor Reforms

Disadvantaged sectors, especially workers, have also gained some sociopolitical power. One of the most urgent tasks of the Aylwin government was to reform the Plan Laboral, the repressive labor code imposed by the dictatorship to weaken the rights of workers. The Pinochet regime tightly limited trade-union rights, prohibited collective bargaining beyond the firm level, and left labor defenseless against the power of business and the newly unleashed market forces. In response, the decimated union movement adamantly opposed military rule and helped bring about its demise. Under the new democracy, unions expected and demanded much more power and protection. But because they were operating from a position of weakness, with their membership base eroded by repression and neoliberal reforms, they looked for support to the Aylwin government, which they had helped vote into office.

The democratic government indeed planned to strengthen unions, but it did not want to antagonize business or jeopardize economic growth and democratic consolidation. Seeking a compromise, the government convoked labor and business into tripartite negotiations. As peak associations focusing on overarching interests, the Confederación de la Producción y del Comercio and the Central Unitaria de Trabajadores (CUT) were

17. Interview with Alvaro Erazo Latorre, Jefe de Gabinete, Subsecretaría de Salud, Ministerio de Salud, Santiago, 3 Feb. 1995.

18. Chile had already attained notable accomplishments in this area under military rule (see Castañeda 1990, chap. 2).

willing to set aside the confrontations of the past and engage in concertation (CIASI 1990). Counting on this goodwill, the government urged the CPC and the CUT to agree on significant yet prudent labor reforms.

Business, however, perceived its core interests as jeopardized and opposed the plans to strengthen workers on the grounds that they threatened efficiency, competitiveness, and growth. Labor meanwhile tried to overcome its weakness by demanding a wide array of legal protections. The CUT's proposals included making the dismissal of workers more difficult; guaranteeing unions financial resources, even by extracting contributions from nonmembers; allowing strikes without restriction; and conducting collective bargaining at a supra-firm level. Seeking to mediate, the government proposed substantial reforms on all these issues while ensuring business the latitude it needed in a market economy open to foreign competition. Even so, the CPC and the CUT rejected this compromise.

As is common in European countries with established systems of corporatist cooperation,¹⁹ the Aylwin government submitted its reform proposals to the Chilean Congress. After fierce debates, the conservative majority in the senate wrested further concessions for business (Congreso Nacional 1992, 1637–75). Nevertheless, the reforms that passed enhanced the rights and power of labor considerably. They provided workers with numerous social benefits, made it more costly for entrepreneurs to dismiss them, extended the right to strike, permitted collective bargaining above the firm level, and gave trade unions more resources.²⁰

These reforms were limited, however, because the labor movement was weak, and the Aylwin government faced constraints. It took seriously the interests of business and the requirements of a market economy open to the world and kept its reform plans moderate. The government then had to make further concessions to the conservative stronghold in the senate. The CUT complained in response that the changes did not go far enough and called for additional reforms, such as extending collective bargaining and creating unemployment insurance (CUT 1993, 3–4).²¹

The labor reforms of the Aylwin government nonetheless reduced the imbalance of power and benefits in Chilean society. As the CUT acknowledged, these reforms enhanced the protection and bargaining power of workers in significant ways and gave unions greater latitude and clout vis-à-vis business and the government. The CUT is now recognized as an influential political force. Further labor reforms are also in

19. In these countries, parties in parliament decide on the framework of business-labor relations, while the peak associations of business and labor determine only the distribution of socioeconomic benefits within these parameters (Lehmbruch 1977, 93–96). A similar “division of labor” between parties and interest associations has emerged in Chile.

20. For good analyses of the decision-making process and its results, see Fortunatti (1991, 63–79); Rojas Miño (1991); and Pereira (1992).

21. Interview with Manuel Bustos Huerta, president of the Central Unitaria de Trabajadores, Santiago, 10 Aug. 1993.

sight. The CPC, the CUT, and the government have already discussed a plan for unemployment insurance, and the new Frei administration has submitted a bill to the congress that would greatly expand collective bargaining.

The significant but limited labor reforms of the Aylwin government also helped workers to advance their economic interests more effectively. In real terms, their wages rose an average of 4.5 percent per year from 1990 through 1992. The minimum wage increased at an even higher rate, by 28 percent between 1990 and 1993 (Magendzo and Vega 1994, 12). As an important part of their concertation, the CUT, the CPC, and the government agreed to favor poorer strata by boosting their remuneration and social benefits. The CUT has focused on this issue, although most of its affiliates earn much more than the minimum wage (Epstein 1993, 52). A major motivation was the desire to win over poorer workers, whose rate of union affiliation is low, and thus strengthen the CUT's claim to represent the entire working class. Thus the CUT's efforts to encompass more of the working class has induced it to emphasize the needs of poorer sectors. As the peak business association, the CPC agreed to these negotiated raises in the minimum wage, even though sectoral organizations pursuing narrow interests remained skeptical or opposed.²² Overall, the labor reforms of the new democracy and the resulting increase in workers' power have improved social equity significantly.

As on the subject of taxes, the warnings from business and neo-liberal think tanks that reforms to protect workers and raise wages would depress employment (M. Valenzuela 1990) have not been confirmed. Employment has expanded considerably under the new democracy, except during the temporary adjustment of 1994 (Aninat Ureta 1994, 71; INE 1995, 3–4). Thus the economic trade-offs resulting from efforts to promote social fairness have been less severe than alleged.

Reduction in Poverty

All these equity-enhancing measures as well as prudent and non-inflationary economic policies have reduced poverty significantly in Chile. As of late 1990, 5.2 million Chileans were classified as poor; two years later, this number had fallen by 800,000. In the same time period, the number of indigent citizens fell from 1.8 to 1.2 million (Gatica and Ruiz 1993, 1). The aggregate poverty gap (the amount of resources needed to lift every Chilean above the poverty line) fell by half from 1.91 percent of GDP in 1990 to .94 percent in 1992 (Larrañaga 1994, 15). This reduction of destitution is a notable accomplishment, especially in comparison with the dismal performance of other new democracies (Morley 1995, 49–55).

22. Interview with Isabel Mendoza Vásquez, Cámara Nacional de Comercio; and with Jaime Alé, Gerente de Estudios, Sociedad de Fomento Fabril, Santiago, 27 July 1993.

Comparisons with the late 1980s show that economic growth *per se* was not the main cause for the reduction in poverty and misery, as the conservative opposition and neoliberal think tanks claim. For each percentage point of growth, the number of poor people fell almost four times as much under democracy (1990–1992) as under authoritarian rule (1987–1990) (Gatica and Ruiz 1993, 2). The new style of development, which led to strong employment growth and a significant rise in wages, played a more important role (Larrañaga 1994, 16–18; Castro 1994, 109–12). While these gains depended on economic prosperity, they were also fueled by the Aylwin government's measures to promote fairer distribution. For instance, new job-training programs and expanded child care for working women facilitated the disproportional growth in employment among poorer groups. Increases in the minimum wage and social benefits as well as the expanded bargaining power of unions contributed to disproportionate growth in income among poorer sectors (Teitelboim 1994, 14, 17, 19; Larrañaga 1994, 21). Thus in line with the core principle of the Concertación strategy of "growth with equity," economic development and social progress reinforced each other.

The new democracy even succeeded in reducing income inequality—a notoriously difficult task. From 1990 to 1992, the poorest fifth of the Chilean population increased its share of national income from 4.2 to 4.6 percent, and if the monetary equivalent of public education and health care is included, its share grew from 5.9 percent to 6.4 percent. The richest fifth suffered a slight loss, from 55.1 to 55 percent, and from 52.5 to 52.2 percent, respectively (see Magendzo and Vega 1994, 32).²³ This mitigation of inequality, however modest, contributed substantially to alleviating poverty: it accounts for 17.5 percent of the decrease in the number of poor households, and 36.6 percent of the reduction in the aggregate poverty gap (Larrañaga 1994, 17).

Thus the equity-enhancing policies of the Aylwin government benefited poorer Chileans in important ways. Although the country has a long way to go to eliminate poverty (not to mention inequality), the anti-populist and gradual reform strategy pursued by the Concertación has already achieved considerable success.

THE CAUSES OF CHILE'S EQUITY-ENHANCING SUCCESS

Why has democracy in Chile, in contrast to other Latin American countries, been successful in improving social equity? The cause most commonly invoked is the healthy economy that the Aylwin government inherited. Sustained growth has indeed made it possible to favor the poor without antagonizing the rich. But political factors have also been crucial.

23. Data collected by the Instituto Nacional de Estadísticas that take the social impact of inflation into account show a similar improvement (INE 1994, 6).

As many analysts have stressed, the new democratic government had learned from the painful confrontations in the Chilean past and the problems caused by populism in new democracies in other countries. To achieve democratic consolidation, the new administrations have deliberately adopted a prudent strategy of attending gradually to social needs while preserving economic equilibrium (Flisfisch 1989, 361–69). Yet I argue that sociopolitical forces have contributed to this prudent strategy only because of the existence of cohesive encompassing organizations. The resulting structure of incentives and capacities has induced these organizations to focus on broad societal concerns and to sacrifice some of their narrow short-term demands (see Olson 1982, 47–53). In this way, cohesive encompassing organizations have provided a crucial impetus for seeking moderate yet significant efforts to enhance social equity.

Economic Prosperity

The common wisdom has been that the country's successful economy has facilitated social change by creating a positive-sum game in which the rich could consent to relative sacrifices without incurring absolute losses. Chile's economic dynamism (Edwards and Edwards 1992) undoubtedly made it easier for the Aylwin government to promote equity. Sustained growth has indeed paved the way for better-off sectors to accept reallocative measures favoring the poor. Moreover, low inflation has preserved income gains for those less well-off, the ones who are hurt most by economic crises. Economic stability has also allowed actors to extend their time horizons and forego short-term gains for the sake of higher benefits in the long run. In these ways, Chile's healthy economy has lessened opposition to social change and induced the better-off and the underprivileged alike to accept gradual reforms.

Yet while prosperity has facilitated equity-enhancing change, the force driving this effort has been a variety of political factors. Indeed, the country's continued economic success was not predetermined. Although Chile was in a much better position economically than the other new democracies in Latin America, it still faced economic problems in 1990 (Hojman 1990). The new government's political response to these problems was crucial for maintaining economic stability.

Some of these difficulties stemmed from the Pinochet regime's decision to raise spending and cut taxes for election purposes in 1988 and 1989. An inflationary impulse resulted that threatened economic equilibrium. A more severe challenge arose from the great concern among business people about the electoral victory of the Concertación, which was initially perceived as hostile to a capitalist system (Bartell 1992, 10–14).²⁴

24. Based on my interview with three officers of the Sociedad Nacional de Agricultura:

Even though the opposition to the Pinochet regime had moderated its criticism of the neoliberal model in order to facilitate the return of democracy, ongoing business distrust threatened to cause disinvestment and other economic problems.

The Concertación's response to these dangers of inflation and business distrust was crucial to Chile's continued economic success. The Aylwin government reassured business that it would respect the market system and pursue responsible policies. Specific government actions spoke even louder.²⁵ In 1990 Finance Minister Foxley strongly supported a tough adjustment plan to control inflation and insisted on solid funding for the planned increase in social spending through a significant albeit limited tax reform. These measures proved that the new government was keeping its promise to enact sound economic policies and that the costs imposed on business would be bearable.²⁶

Prudent economic policies and the conciliatory yet firm style of the Aylwin government overcame the risk of inflation and greatly reduced business-sector distrust. These political decisions—not economic predestination—kept Chile on its path of stable growth. What factors account for these policies and for the equity-enhancing reforms of the new democracy? Which factors induced and enabled the government to pursue a prudent strategy that would guard economic equilibrium while effecting gradual social change for the sake of democratic consolidation? Many analysts have stressed the importance of political learning, yet I argue that the incentives and capacities created by cohesive encompassing organizations in state and society have also been decisive.

Political Learning

Many analysts have stressed that because Chile was the last major country in Latin America to shake off authoritarian rule, it has learned from its own conflictive past and the problems of other new democracies (Garretón 1992; Montecinos 1993, 7–11; Ortega Frei 1992; Remmer 1992–1993, 18–19; Roberts 1992, chap. 3; Scully 1992, 196–200). These experiences have impressed on a wide range of politicians and social forces the importance of consolidating democracy and have suggested specific requirements for doing so. These collective necessities include moderate yet significant social reform designed to guarantee stability.

Ample evidence suggests that the new democracy has in fact bene-

President Ernesto Correa Gatica, First Vice-President Patricio Crespo Urete, and Pro-Secretario General Juan Eduardo Correa Bulnes, Santiago, 9 Aug. 1993. Also based on my interviews with Lizana, Vice-President of the Sociedad de Fomento Fabril, and Mendoza, Gerente de Estudios, Cámara Nacional de Comercio.

25. Interview with Lizana.

26. Interview with Manual Marfán, Asesor Especial del Ministro de Hacienda, Santiago, 9 Aug. 1993; and interview with Mendoza.

fited from political learning. Admittedly, the mere fact that the Aylwin government did a "better job" than its predecessors and its counterparts in neighboring countries is not sufficient proof of learning from previous mistakes. Rather, it must be demonstrated that a conscious response to these errors caused the Concertación to modify its planned course of action. As in all causal explanations, the impossibility of observing the counterfactual (of knowing conclusively how the Aylwin government would have acted in the absence of learning) renders this assessment tentative. But a wealth of statements from leading decision makers shows that the incoming Aylwin government was worried about a resurgence of sharp conflict and an eruption of pent-up demands, risks that it made deliberate efforts to avert (Arriagada and Graham 1994, 244, 249, 256–57, 271, 282; Flisfisch 1994, 24–26; Foxley 1990, 117–19; 1993, 7, 17, 58, 108, 172–76).²⁷ For instance, the surprisingly tough adjustment policy of 1990 represented a reaction to these perceived dangers. It is therefore reasonable to believe the assertions made by Edgardo Boeninger, chief strategist in the Aylwin government, that "we have learned from past history" and "we have learned from the experience of our neighbors" (Boeninger 1991, 58).

The Concertación and even the moderate opposition, the *Renovación Nacional*, were determined to end the confrontation that had ravaged Chile for the past twenty-five years. When Presidents Frei, Allende, and Pinochet tried to impose comprehensive projects that sought to transform the country profoundly, fierce conflict ensued. These experiences eventually led to a strong preference for reconciliation and compromise (Foxley 1985, 99–112; Roberts 1992, chap. 3). This orientation, however, did not imply full-scale preservation of the neoliberal model that had been imposed by the dictatorship. On the contrary, gradual social reform was considered necessary to preempt social unrest and political turmoil, yet it needed to be achieved without antagonizing established elites and provoking them to turn against democracy. This kind of reform was acceptable to business because it legitimized the market system, guaranteed its long-term stability, and made unnecessary worrisome recourse to open force (like that wielded by the military regime).²⁸

The Concertación also learned from the disastrous experiences of other new democracies, such as Brazil, Peru, and Argentina, where "populist" policies designed to provide immediate massive benefits to poorer strata quickly occasioned economic crises, social unrest, and political turmoil. After witnessing these problems in neighboring countries, leaders of the Concertación warned incessantly of the dangers of populism (Boeninger 1990, 46–47; 1991, 58; Foxley 1990, 117–19; 1993, 58, 108, 172–76;

27. Interview with Edgardo Boeninger.

28. Interview with Correa Gatica, Crespo Urete, and Correa Bulnes of the *Sociedad Nacional de Agricultura*; and interview with Feliú, former president of the *Confederación de la Producción y del Comercio*.

Flisfisch 1994, 24–25).²⁹ In their earlier writings, in contrast, they had barely mentioned this risk (see Boeninger 1985; Foxley 1985, 1987). Politicians from other Latin American countries also urged the incoming government to avert economic populism (Muñoz 1990, 60–61; 120–24). Jeffrey Sachs's influential analysis of the deleterious "populist cycle" under Alan García in Peru, José Sarney in Brazil, and Salvador Allende in Chile also had considerable impact, as shown by the almost literal repetition of its conclusions by Minister Foxley (Sachs 1989; Foxley 1990, 117–19).

The failures of economic populism in neighboring countries thus reinforced the Concertación's determination to pursue a prudent course. Yet while the Aylwin government insisted on preserving economic stability and refrained from instantaneous redistribution, it considered gradual satisfaction of social needs to be imperative. After all, deep inequality and widespread poverty were the very conditions that had created pressure for populist policies (Boeninger 1990, 46–47; Sachs 1989, 7–10). Learning thus produced a commitment to responsible economic policies and moderate yet significant equity-enhancing reform.

Political learning alone, however, cannot explain the successes of Chile's new democracy. As the literature on collective-action problems shows, collective needs perceived through learning do not necessarily prompt adequate action (Olson 1971, 22–36, 43–52). Because no one can be excluded from a collective good, actors commonly avoid contributing to its attainment, hoping that others will provide it on their own. As a result of such "free riding," many collective goods are not achieved at all.

Given the dilemma of collective action, why did powerful sociopolitical forces in Chile help fulfill broad societal needs? The main explanation is organizational: many of these forces have encompassing organizations and therefore focus on overarching concerns, not just on immediate narrow interests (Olson 1982, 41–53). This logic of encompassing organization has led the Chilean business sector to accept sacrifices, induced Chilean unions to moderate their demands and emphasize the needs of poorer strata, and enabled the Aylwin government to enact equity-enhancing policies in a coordinated way. Cohesive encompassing organization thus has been crucial to Chile's equity-enhancing success and continuing economic stability.

Encompassing Organization

The logic of what I call "encompassingness" mitigates collective-action problems in two ways. First, encompassing organizations receive a large share of national collective goods, such as the benefits of economic and political stability. Conversely, because they are strongly affected by

29. Interview with Angel Flisfisch, Director of the División de Estudios, Secretaría General de la Presidencia, Santiago, 10 Aug. 1993.

national problems, they cannot easily escape the costs of their own narrowly self-interested behavior. They therefore have little incentive to "free ride" and self-interest in contributing to the provision of collective goods. Second, if all crucial actors have encompassing organizations, they are likely to cooperate with each other, which is necessary for attaining many collective goods. Where encompassingness prevails, a small number of organizations can speak for most of a society. Transaction costs are much lower among a few encompassing organizations than among a welter of narrow groupings (North 1990, chap. 4). Encompassing organization therefore makes it easier to reach binding agreements and monitor compliance. Cooperation is further facilitated by intra-organizational cohesion. Cohesive organizations can make credible commitments because of their ability to control shirking among their members.

In these ways, the existence of encompassing organizations has led most sociopolitical forces in Chile's new democracy to contribute to the prudent strategy of "growth with equity" suggested by political learning. This logic of encompassingness has affected interest associations, political parties, and the state. This argument can be confirmed by comparing the new democracy with Chile before 1973 and with contemporary Brazil.

As regards interest groups, both business and labor in Chile have encompassing peak associations (organizations are encompassing if they represent the interests of a large share of all socioeconomic sectors).³⁰ The Confederación de la Producción y del Comercio (CPC) represents most sectors of business, while the Central Unitaria de Trabajadores (CUT) represents most sectors of Chilean labor. Each organization has minor rivals, and the CUT can count only 10 to 12 percent of all laborers as actual members (Frías 1994, 58–59).³¹ But these peak associations have served nonetheless as *the* representatives of entrepreneurs and workers. They have also been recognized as such by the government, which has deliberately strengthened them in the interest of fostering compromise.³² Following the logic of encompassingness, the CPC and the CUT have advanced the common interests of their class and taken national goals into account.

30. Because interest organizations provide collective goods that are accessible to non-members (such as increases in the minimum wage), their organizational density (the percentage of all workers or business firms affiliated with them) is not a decisive factor in their encompassingness.

31. If only "workers with an effective and real capacity for unionization" are considered (excluding the self-employed in the informal sector, for example), this figure rises to about 20 percent (Frías 1994, 59). Representatives of the CPC and its most important member organization, SOFOFA, told me that they did not know the total number of their members, who are affiliated via sectoral organizations.

32. Interview with Guillermo Campero, Asesor Especial del Ministro de Trabajo, Santiago, 27 July 1993.

In representing most of the various branches of business (especially large-scale firms), the CPC has tried to consolidate a free-market economy in Chile. Anticipating the end of military rule, the CPC president promoted the diffusion of pro-business ideas (Feliú 1988; CPC 1990). When democracy was restored, business leaders understood that they ought to make sacrifices to spread the benefits of capitalism more widely and thus legitimate the existing economic model.³³ To avoid hostility under the new democracy, the CPC has been willing to compromise with the government and with labor, even when some particular member association focusing on narrower sectoral concerns has advocated intransigence.³⁴ Thus the CPC's encompassing organization has led business to make concessions for the sake of broad long-term interests, especially to achieve the sociopolitical legitimation of capitalism. This conciliatory attitude has facilitated equity-enhancing reform under democracy in Chile.

The CUT, as the only effective peak association of workers, has acted according to a similar logic. It has tamed sectoral interests and made sacrifices, thus helping the government to avoid a populist cycle.³⁵ In moderating its long-repressed demands and adjusting them to the requirements of a new democracy and a successful market economy, the CUT has deemphasized the immediate economic interests of its members and focused on social needs of wider sectors of the population, such as social security (Díaz 1991). Although most CUT members belong to better-off sectors, this peak association has stressed the needs of the poorer sectors of the working class in order to gain stronger representation among them. Hence the large increases in the minimum wage and in social benefits for the poor have resulted from the CUT's effort to become more encompassing.

Close connections with parties allied in the Concertación have reinforced the CUT's willingness to contribute to the strategy of "growth with equity." CUT leaders are members of the Partido Demócrata Cristiano and the Partido Socialista, and party loyalty has made them consider the plans of the Concertación in their union activities (Epstein 1993, 48). Links to a broad-based party alliance thus have reinforced an encompassing interest association's concern with overarching goals. At the same

33. Interview with Correa Gatica, Crespo Urete, and Correa Bulnes of the Sociedad Nacional de Agricultura; and with Manuel Feliú, former president of the Confederación de la Producción y del Comercio.

34. As has already been shown, divergences between the CPC and sectoral business organizations have erupted with respect to tax reform and raising the minimum wage (see especially note 15).

35. For instance, the CUT has mediated conflicts between the powerful association of schoolteachers and the government, according to María Rozas, Acting President of the CUT, interviewed in Santiago, 1 Feb. 1995. As with business, these divergences have pitted organizational leaders against each other and thus have not resulted from informational asymmetries between leaders and members (see note 15).

time, the CUT's relative weakness in comparison with the clout of business did not force it to submit to compromise. Weak unions in new democracies tend toward greater militancy in desperate efforts to attain their goals, whereas strong unions rely on their inherent bargaining power to advance their interests effectively (see J. S. Valenzuela 1989, 452–53).³⁶ Thus the CUT's role as an encompassing organization—not the evident asymmetry of power between business and labor—has been decisive in the CUT's moderation.

The fact that both business and labor have had effective peak associations has been critical to the success of concertation in the new democracy. Because the CPC and the CUT represent broad classes, the logic of encompassingness has induced them to seek agreement. Although divergences in interests blocked consensus on some highly conflictive issues (such as labor reform), important equity-enhancing accords have been reached on such issues as increasing the minimum wage. Thus the encompassing organizations of business and labor have greatly favored the reform efforts of the new democracy.

In contrast, labor's peak association in Chile before 1973 was torn by fierce rivalry among partisan factions and weakened by the refusal of powerful unions to join it. As a result of what Ben Burnett has identified as "the lack of internal cohesion . . . in the labor movement" as well as intense competition, unions in the leading sectors of the economy demanded high benefits for their constituents, who were already relatively well-off (Burnett 1970, 128; see also Barrera and Valenzuela 1986, 233–34). Because business passed the costs of these benefits on to consumers via price increases (Campero and Cortázar 1986, 11–12) and the unions were lukewarm about social reforms benefiting the poorest strata (Ascher 1984, 34, 40, 136), union activism and militancy counteracted efforts to increase equity. Unions in the more backward sectors pressed for comprehensive proposals for profound social transformation, but this radicalism provoked business into a defensive countermobilization that helped destroy democracy and end redistributive efforts abruptly in 1973. Thus in this earlier period of democracy in Chile, fierce organizational and partisan rifts within the labor movement posed considerable obstacles to lasting social reform favoring the neediest Chileans.

Even greater organizational fragmentation has reigned in Brazil, where as many as four peak associations have competed for the loyalty of workers and no encompassing organization has existed for business. Union associations that are fierce rivals have often pursued narrow self-interests, sometimes disguised in radical rhetoric. As a result, Brazilian

36. In fact, the more the CUT has come to see itself as weak (due in part to the declining rate of unionization), the more impatient it has grown with the gradual reform strategy of the Concertación. On this subject, see my epilogue.

unions have often opposed social reform to safeguard the relative privileges of their circumscribed constituencies (Weyland 1996, chaps. 6–7). Similarly, a large number of sectoral business associations have focused on their own “special interests” and rejected equity-enhancing sacrifices involved in tax and social reforms designed to promote larger societal goals such as fiscal equilibrium and social peace (Weyland 1996, chaps. 5–6). The organizational fragmentation of business and labor has also impeded negotiation of income policies. Thus the Brazilian case confirms the importance of encompassing organizations in the reformist successes of Chile’s new democracy.

As for political parties, the formation of a stable, broad-based party coalition has also helped Chile’s fledgling democracy pursue a prudent strategy of equity-enhancing change. Most of the country’s well-organized parties have responded to the worldwide advance of capitalism and the demise of the Pinochet regime by adopting less ideological postures reoriented toward compromise (Scully n.d., 7–10). In fact, the Center and the renovated Left have formed a solid alliance, the *Concertación de Partidos por la Democracia*.³⁷ This coalition emerged during the lengthy struggle against the Pinochet regime, whose exclusionary and repressive tactics induced the opposition to join forces. The Christian Democrats and most Socialists eventually came to understand that their earlier ideological absolutism and reluctance to enter into coalitions proved to be a major cause of the breakdown of democracy in 1973. Thus considerations of power and political learning prompted the formation of a resilient and wide-ranging party alliance.

This party pact has played a role similar to that of encompassing interest organizations. A stable majority coalition among parties faces strong electoral incentives to promote national goals that benefit its vast constituency rather than catering to specific sectors, regions, or class fractions, as small parties with limited bases of support are tempted to do (Olson 1986, 169–73). A broad-based party pact (or a “catch-all party”) tends to avoid making excessive promises to special interests (Kirchheimer 1966, 186–87, 193–95) and committing other acts of irresponsible electoral competition because its numerous supporters would bear much of the cost of narrowly self-interested behavior. Such an alliance has reasons to pursue the collective interests of a large majority of the population. Chile’s *Concertación* has therefore promoted democratic consolidation, economic growth, and social justice as its top priorities and induced its member parties to support these goals even when doing so has required sacrifices. For instance, leaders of the *Partido Demócrata Cristiano* have

37. This party alliance has been solidified by the electoral system imposed by the outgoing dictatorship (A. Valenzuela 1994, 114), but it emerged before this rule change (Ortega Frei 1992, 353–55).

used their influence in the Chilean medical association to moderate doctors' salary demands and ensure their cooperation with the government's progressive health policies.³⁸ Similarly, the Partido Socialista has tempered its pressure for immediate benefits for poorer people, which could threaten fiscal equilibrium.

This sturdy alliance has also allowed the Concertación to enter into agreements with the moderate opposition (RN) and thus to reallocate resources without confrontation. The party pact has checked the temptation for Center-Left parties to denounce these unavoidable accords as "sellouts" to the Right and thus undermine their enactment. Similarly, the Christian Democratic and Socialist parties have reached tacit agreements with the CUT to keep labor demands compatible with the government's strategy of gradual reform. The two parties, rather than trying to enlarge their factions in the CUT through militancy, have cooperated in pleading for economic moderation and have offered social benefits in return.

The Concertación has also provided the executive branch of the government with stable support, making possible a fairly coordinated and effective reform policy. Unlike other governments in Latin America, the Aylwin administration could count on the backing of a solid party coalition and concentrate on designing and enacting reform programs rather than on buying support through patronage.

Chile also had strong parties prior to 1973, but acrimonious competition among them hindered the ability of the Frei and Allende governments to effect lasting social reform and fueled the deep polarization that eventually destroyed democracy (A. Valenzuela 1978, esp. chap. 3). Rivalries among parties made it impossible for both presidents to control their own supporters and avoid economic crises, which quickly eroded the income gains made by poorer strata. Unable to pursue prudent strategies for preserving economic stability and democracy (the preconditions of enduring equity-enhancing change), the Frei and Allende governments failed to achieve their ambitious plans for reallocation (Ascher 1984, 137–47, 235–38, 254–58). As the contrast with Chile before 1973 shows, the formation of a stable party alliance—not the strength of individual parties—has been decisive in the socioeconomic success of the new democracy (see A. Valenzuela 1994, 137).

Contemporary Brazil is plagued by even greater fragmentation in its party system. The organizational fluidity of parties and the absence of stable alliances have made it exceedingly difficult for the national government to line up reliable support for its policy programs. As a result, reallocative proposals such as tax reforms that impose obvious costs rarely pass in the Brazilian Congress. Where the costs are less visible, equity-

38. Interview with Claudio Huepe, Vice-President of the Partido Demócrata Cristiano, Santiago, 23 Jan. 1995.

enhancing benefit programs may be approved, but their implementation becomes severely distorted by the incessant efforts of numerous clientelist politicians to gain access to patronage resources. Parties' lack of internal discipline and their incapacity to check their members' narrowly self-interested behavior thus pose insurmountable obstacles to enacting and executing social reforms (Mainwaring 1991; Weyland 1996, chaps. 6–7).

Finally, the cohesive organization of the Chilean state has greatly furthered reform policies under the new democracy. If a state apparatus lacks internal unity and coordination, collective-action problems emerge among its agencies. Fierce rivalry among different entities prompts incessant pursuit of narrow agency interests to the neglect of broad governmental or state goals, such as democratic legitimation or fiscal responsibility. In such a situation, the prevailing rule becomes "Every agency for itself, and the Finance Ministry against all." In contrast with a welter of autonomous agencies, a cohesive state apparatus functions like an encompassing organization. Because the costs of neglecting external effects (like the impact of deficit spending on inflation and opposition to the government) are prohibitive, a unified state apparatus has a strong incentive to pursue larger collective goals in a responsible manner.

The contemporary Chilean state is rather cohesive and has remained fairly free of bureaucratic infighting. This internal unity is partly a legacy of the centralization of power accomplished under dictatorial rule. The Pinochet regime created the office of the *Secretaría General de la Presidencia* to plan and coordinate government policy. The incoming Aylwin government used this agency to design and implement its own reform strategy (Rehren 1993, 24–26). In cooperation with the *Ministerio de Hacienda* and its budget bureau, the *Dirección de Presupuestos*, this secretariat made certain that sectoral ministries followed overall governmental priorities. It also helped identify social deficits that needed addressing. Meanwhile, the *Dirección de Presupuestos*, determined to use public resources efficiently, insisted on targeted spending to rectify these problems. As a result of these coordinating efforts, state agencies contributed fairly effectively to the overall strategy of "growth with equity" rather than pursuing narrow organizational self-interests and acting at cross-purposes. The unity of the Chilean state thus eliminated a major potential source of political paralysis and made equity-enhancing reform possible.

In contrast, the internal fragmentation of the Chilean state prior to 1973 and the even worse situation in contemporary Brazil have posed enormous obstacles to pursuing coherent reform policies. The absence of a central coordinating agency undermined the efforts of the earlier Frei government to enact social reform while controlling inflation. After 1967 the *Comité Económico*, the interagency council charged with policy planning, proved unable to rein in state agencies acting according to their

narrow organizational goals (Cleaves 1974, 127–31, 317). The resulting economic problems eroded many of the gains made by poorer strata in the early years of the Frei administration (Ascher 1984, 139–46).

In the new Brazilian democracy, the state is rent by even more profound divisions. Rampant bureaucratic politics has hindered the efforts of the democratic governments since 1985 to pursue redistributive policies and overcome elite opposition. Competing state agencies have often blocked reform measures in conflicts within the executive branch, subverted them by lobbying in congress, or corroded their implementation by wrangling over bureaucratic turf (Weyland 1996, chaps. 5–7).

Thus comparisons with Chile before 1973 and contemporary Brazil demonstrate that the cohesive encompassing organization of sociopolitical forces in the new Chilean democracy has furthered equity-enhancing change. It has led actors to look beyond their narrow interests and attend to broad concerns, such as greater social justice for the sake of democratic consolidation. In this organizational setting, democracy in Chile has brought about significant although moderate social reform.

CONCLUSION

My analysis of equity-enhancing policy making in the new Chilean democracy suggests that arguments that postulate tight constraints arising from a neoliberal economic model and a negotiated regime transition need to be qualified. Despite the presence of both types of constraints, the Patricio Aylwin government had more latitude than expected to enact reform. Certainly, many basic socioeconomic structures and their inherent sources of inequality have been left in place. But numerous reform measures have improved equity and distributed economic benefits and sociopolitical power more evenly. The poor have made clear gains, and privileged sectors like business have had to shoulder a heavier burden. These are significant successes, especially compared with the severely limited achievements of other new democracies in Latin America.

Political and organizational factors, reinforced by economic prosperity, have mitigated the obstacles stemming from Chile's neoliberal model and its negotiated regime transition. Above all, the cohesive and encompassing organization of key political forces has lowered economic trade-offs and weakened elite opposition to equity-enhancing reform. A solid and broad party coalition and a unified state committed to a market economy have combined to guarantee a high degree of sociopolitical stability. Their demonstrated ability to administer the Chilean economic model responsibly has allowed them to impose a higher burden on business without endangering investment, efficiency, and competitiveness. In response, the desire to legitimate capitalism in the new democracy has

induced business and its peak association to accept sacrifices that promote fairer distribution.

Political learning and especially encompassing organization have also provided the impulses for social change in Chile. As many commentators have stressed, the dismal experiences of other new democracies in Latin America and the lessons taken from Chile's conflictive past convinced the Concertación to adopt a gradual reform strategy and commit itself to responsible economic policies in order to consolidate democracy. Given collective-action problems, however, learning does not automatically prompt adequate behavior. It is crucial to specify the conditions under which lessons from past or foreign experiences are actually translated into action.

For this purpose, my explanation has drawn on the simple yet powerful organizational argument of Mancur Olson's logic of encompassingness. In the new Chilean democracy, cohesive and encompassing organization has been crucial in inducing most sociopolitical forces to contribute to the collective goals established through learning. By showing how organizational concepts can clarify the context in which learning affects political behavior, this article seeks to fill an important gap in the burgeoning literature on democratic consolidation in Latin America.

My findings suggest that democracy in Latin America can, under certain political-organizational conditions, enhance social equity and improve the life chances of the poor. As in European social democracies, these accomplishments are gradual, even painfully slow in coming. Yet more radical strategies have proven enormously risky and costly. By minimizing the threat of drastic reversals, the prudent strategy pursued by the new Chilean democracy holds greater promise in the long run.

Admittedly, the Aylwin government's slogan of "growth with equity" sounded too self-congratulatory in implying that equity had already been attained. There remains a long way to go, as many participants in the Concertación have acknowledged.³⁹ But the fact that Chile's new democracy has been successful in achieving "growth with greater equity" is beyond doubt.

EPILOGUE: FUTURE PROSPECTS OF GROWTH WITH GREATER EQUITY IN CHILE

Can democratic Chile extend its equity-enhancing accomplishments over the medium and long run? Can it eventually eliminate poverty? While definite answers are impossible, the prospects look encouraging. Record rates of investment and governmental efforts to improve the qualifications of the workforce and to help develop sectors with higher value added are providing the preconditions for sustained economic develop-

39. "Programa de Gobierno," in-house document, presidential campaign of Ricardo Lagos, 1993.

ment. After the temporary adjustment of 1994, the growth of employment and wages has resumed, and the resources required for governmental programs to benefit the poor are readily available.

The government of Eduardo Frei Ruiz-Tagle, in office since March 1994, has given priority to combating poverty and has promised to eliminate misery by the year 2000. In pursuing this ambitious goal, the new administration has emphasized an array of "social investments," such as improvements in education, job training programs, and credit support for small enterprises in the informal sector (CIS 1994, 9, 16–19, 28–38; Ministerio de Hacienda 1994). These programs are designed to provide the poor with means of attaining income, not with mere subsidies. The Aylwin government's Fondo de Solidaridad y Inversión Social (FOSIS) introduced this "help for self-help" approach to Chilean social policy (Graham 1994, 41–45). The new Frei government is now turning this approach into the core of its anti-poverty strategy. The new administration has also tried to mobilize societal support by establishing the Consejo Nacional para la Superación de la Pobreza, which has wide-ranging representation and has already advanced a number of important proposals (Consejo Nacional 1995).

As regards the political will and capacity to pursue equity-enhancing reforms in the context of sound economic policies, the success achieved by the Aylwin government has reinforced the lessons of political learning: the determination to avoid sociopolitical confrontation and economic populism. Organizational encompassingness is also likely to remain at a high level. Despite slowly growing friction fueled by electoral competition, the Concertación has preserved its unity and has consolidated mechanisms for elaborating common proposals and resolving differences (Munck 1994, 20–23).⁴⁰ After initial difficulties, the new Frei government has achieved considerable internal coordination, and the continuing cohesion of the Chilean state has allowed it to pursue consistent policies effectively, such as the adjustment program of 1994.

As for Chilean interest organizations, the CPC is about to extend its scope further by including newly emerging sectors, such as the private pension companies. The CUT, in contrast, has been concerned about the decline in unionization rates since 1993 (Frías 1994, 58–59) and has grown impatient with the gradual advance of social reform under the new democracy. This heightened perception of its own weakness has prompted somewhat greater militancy. As a result, tripartite agreements on further raises in the minimum wage have proved impossible since 1994.⁴¹ At the same time, however, both the CUT and the CPC have participated actively

40. Interview with Huepe.

41. Interview with Guillermo Campero, Asesor Especial del Ministro de Trabajo, Santiago, 19 Jan. 1995. In both years, the government applied the readjustment formula enshrined in the agreement of 1991.

in the newly created Foro del Desarrollo Productivo, which has produced tripartite agreements on a range of important projects such as job training programs and quality control for Chilean exports (Ministerio de Economía 1994). Thus despite signs of discontent, the CUT is far from breaking with the Frei government's strategy and the principle of tripartite negotiation.

The government has responded to the CUT's complaints and satisfied its most important demand by proposing a new set of labor reforms in congress.⁴² The main goal of the bill is to extend collective negotiation effectively to the small-enterprise sector and also to agriculture and construction. Business reactions have been negative: the sectoral organization of industry has again taken a harder line than the CPC. Yet the government considers a compromise possible because business wants to avoid a confrontation.⁴³ The fate of this major reform proposal will be an important indicator for the future of tripartite relations among business, labor, and the government. Although the level of conflict could rise, the impulse toward moderation created by political learning and the existence of encompassing organizations remains strong. For these political reasons and because of Chilean economic prosperity, the new democracy seems likely to enjoy continued growth with greater equity.

42. "Políticas del gobierno para modernizar la legislación laboral," in-house document obtained from the Ministerio de Trabajo, 30 December 1994.

43. Interview with Campero, 19 Jan. 1995.

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